

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name ACSET	County KENT
Fiscal Year End 06/30/2006	Opinion Date 03/26/2007	Date Audit Report Submitted to State 03/30/2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

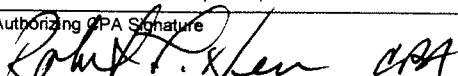
YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) CROWE CHIZEK AND COMPANY LLC		Telephone Number 616-774-0774	
Street Address 55 CAMPAU AVE, NW, SUITE 300		City GRAND RAPIDS	State MI
		Zip 49503	
Authorizing CPA Signature 		Printed Name Robert L. Herr	License Number 1101014570

**AREA COMMUNITY SERVICE EMPLOYMENT
AND TRAINING COUNCIL**

FINANCIAL STATEMENTS
June 30, 2006 and 2005

AREA COMMUNITY SERVICE EMPLOYMENT AND TRAINING COUNCIL
Grand Rapids, Michigan

FINANCIAL STATEMENTS
June 30, 2006 and 2005

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AREA COMMUNITY SERVICES EMPLOYMENT AND TRAINING COUNCIL
MANAGEMENT DISCUSSION AND ANALYSIS
Years ended June 30, 2006 and 2005

This section of the Area Community Services Employment and Training Council ("Council") financial report provides a discussion and analysis of the financial performance during the years ended June 30, 2006 and 2005. Please read it in conjunction with the accompanying financial statements and footnotes which immediately follow this section.

Financial Highlights

General Fund Activities

- Total fund balance for the General Fund increased \$198,615 which represents a 18.1% increase from year-end 2006. This increase is a result of certain Community Action programs which operate on a per diem basis.
- Total revenue and expenditures for the General Fund increased by \$1,472,231 and \$1,252,138, respectively, and is primarily due to the slight increase in overall funding awarded by the various federal, state and local grantors.

Agency Fund Activities

Total assets and liabilities increased by \$26,711, which represents a 6.0% increase from year-end 2005. This increase is due to an overfunding of the Agency Fund activities by the General Fund.

Overview of the Financial Statements

The Council is an alliance of three governmental units: the City of Grand Rapids, the County of Kent and the County of Allegan. Elected officials, including the chief elected official of each unit and others appointed by their respective bodies, plan and implement employment and training and family support programs to provide opportunities for economic self-sufficiency to residents residing in the respective units of government.

Within the General Fund, the Council has the following divisions:

Employment and Training: This division is responsible for the planning, implementation and oversight of a variety of employment and training programs designed to upgrade the workforce in our Michigan Works! Area. Funding sources are primarily federal, and include state and local support.

Community Action: This division is responsible for the planning and delivery of family support services in the County of Kent. Direct services are provided, such as advocacy, referral, housing and shelter related assistance, food assistance, and related case management. Funding sources are primarily from federal grants plus state and local support to a lesser extent.

AREA COMMUNITY SERVICES EMPLOYMENT AND TRAINING COUNCIL
MANAGEMENT DISCUSSION AND ANALYSIS
Years ended June 30, 2006 and 2005

Financial Analysis of Area Community Services Employment and Training Council

Net Assets

The net assets of the Council were \$994,170 at June 30, 2006, an increase of \$258,251 from year-end 2005. Total assets increased by \$1,211,758 and total liabilities increased by \$953,507. At June 30, 2005, the net assets of the Council were \$735,919 which represents a 11.3% increase from year-end 2004 due to the decrease in total assets of \$564,551 and the decrease in liabilities of \$639,319.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Assets	\$ 4,387,538	\$ 3,175,780	\$ 3,740,331
Liabilities	<u>3,393,368</u>	<u>2,439,861</u>	<u>3,079,180</u>
Net assets	<u>\$ 994,170</u>	<u>\$ 735,919</u>	<u>\$ 661,151</u>

Change in Net Assets

Net assets increased \$258,251 for the year ended June 30, 2006, compared to an increase in net assets of \$74,768 for the year 2005.

	-----Year Ended-----		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues	\$ 22,767,662	\$ 21,295,431	\$ 21,388,173
Expenses	<u>22,509,411</u>	<u>21,220,663</u>	<u>21,252,345</u>
Change in net assets	<u>\$ 258,251</u>	<u>\$ 74,768</u>	<u>\$ 135,828</u>

General Fund Budgetary Highlights

The Council adopts an annual appropriated budget for its General fund. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The only significant differences between the original and final amended budgets and between final amended budgets and actual expenditures were noted with grant revenues and subrecipient program costs. These changes were due to the timing of the grant activity as many of these grants extend past year-end and thus revenue and expenditures that were budgeted for these grants were not earned nor incurred until after year-end.

AREA COMMUNITY SERVICES EMPLOYMENT AND TRAINING COUNCIL
MANAGEMENT DISCUSSION AND ANALYSIS
Years ended June 30, 2006 and 2005

Capital Assets and Debt Administration

The Council does not own any buildings. The only capital assets are office furniture and equipment, vehicles, and computer hardware and software. The change in capital assets for year-end 2006 from 2005 is attributed to \$292,387 expenditures for computer hardware and depreciation expense of \$232,751. During the fiscal year 2005 the Council had \$279,909 of expenditures for office equipment and computer hardware and depreciation expense of \$183,663.

The Council has no debt.

Economic and Other Factors

The Council is feeling the effects of the stagnant economy as evidenced by the large number of unemployed workers and the increasing numbers of individuals presenting themselves for services. While we are able to provide service to most individuals seeking them, the Council is limited to the funding awarded by various federal, state and local grantors.

**Contacting the Area Community Services Employment
and Training Council's Financial Management**

This financial report is designed to provide our board members and the citizens with a general overview of the Council's finances and to demonstrate the Council's accountability for the money it receives and administers. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Executive Director, ACSET Council, 144 E. Fulton, Grand Rapids, MI 49503.



Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENTS

The Governing Board
Area Community Service Employment
and Training Council
Grand Rapids, Michigan

We have audited the accompanying government funds balance sheet/statement of net assets and statement of fiduciary net assets – fiduciary fund of Area Community Service Employment and Training Council (the Council) as of June 30, 2006 and 2005 and the related statement of governmental funds revenue and expenses and changes in fund balance/statement of activities, for the years then ended. These general purpose financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Council as of June 30, 2006 and 2005, and the results of its operations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2007 on our consideration of the Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

Our audits were performed for the purpose of forming an opinion on the financial statements of the Council taken as a whole. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The Management's Discussion and Analysis (MD&A) on pages 1 through 3 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


Crowe Chizek and Company LLC

Grand Rapids, Michigan
March 26, 2007

AREA COMMUNITY SERVICE EMPLOYMENT AND TRAINING COUNCIL
GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS
June 30, 2006 and 2005

	----- 2 0 0 6 -----			----- 2 0 0 5 -----		
	Statement of		General	Statement of		General
	Fund	Reclassifications	Net Assets	Fund	Reclassifications	Net Assets
ASSETS						
Cash and cash equivalents (Note 2)	\$ 631,005	\$	631,005	\$ 42,675	\$	42,675
Accounts receivable - grantors	2,905,155		2,905,155	2,342,948		2,342,948
Prepaid expenses	152,705		152,705	168,565		168,565
Travel and other advances	3,096		3,096	12,436		12,436
Capital assets - net (Note 3)		\$ 668,792	668,792		\$ 609,156	609,156
Due from component unit	26,785		26,785			
	<u>\$ 3,718,746</u>	<u>\$ 668,792</u>	<u>\$ 4,387,538</u>	<u>\$ 2,566,624</u>	<u>\$ 609,156</u>	<u>\$ 3,175,780</u>
LIABILITIES AND FUND BALANCE/NET ASSETS						
Liabilities						
Accrued subrecipient program costs	\$ 2,637,505	\$	2,637,505	\$ 1,866,053	\$	1,866,053
Accounts payable	160,141		160,141	150,889		150,889
Advance from grantors	482,161		482,161	331,912		331,912
Accrued payroll	113,561		113,561	78,821		78,821
Due to component unit				12,186		12,186
Total liabilities	<u>3,393,368</u>		<u>3,393,368</u>	<u>2,439,861</u>		<u>2,439,861</u>
Fund balance						
Unreserved	325,378	\$ (325,378)		126,763	\$ (126,763)	
	<u>\$ 3,718,746</u>			<u>\$ 2,566,624</u>		
Net assets						
Invested in capital assets		668,792	668,792		609,156	609,156
Unrestricted		325,378	325,378		126,763	126,763
		<u>994,170</u>	<u>994,170</u>		<u>735,919</u>	<u>735,919</u>
		<u>\$ 668,792</u>	<u>\$ 4,387,538</u>		<u>\$ 609,156</u>	<u>\$ 3,175,780</u>

See accompanying notes to financial statements.

AREA COMMUNITY SERVICE EMPLOYMENT AND TRAINING COUNCIL
STATEMENTS OF GOVERNMENTAL FUND REVENUES, EXPENSES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
Years ended June 30, 2006 and 2005

	----- 2 0 0 6 -----		----- 2 0 0 5 -----	
	<u>General</u> <u>Fund</u>	<u>Reclassifications</u>	<u>Statement of</u> <u>Activities</u>	<u>General</u> <u>Fund</u>
				<u>Reclassifications</u>
				<u>Statement of</u> <u>Activities</u>
Revenues				
Grants	\$ 22,767,662	\$	22,767,662	\$ 21,295,431
Expenses				
Subrecipient program costs	15,889,951	\$ (42,924)	15,847,027	13,311,463
Direct client services	968,236		968,236	2,745,412
Operating expenses				
Salaries and wages	2,348,927		2,348,927	2,346,868
Fringe benefits	973,437		973,437	842,482
Office supplies and postage	272,480		272,480	213,266
Travel	210,092		210,092	212,440
Outside services	199,870		199,870	229,855
Occupancy expense	809,242		809,242	706,960
Equipment lease and maintenance	229,063		229,063	62,370
Small equipment and supplies	249,463	(249,463)	232,751	218,781
Depreciation		232,751	232,751	(213,919)
Other expenses	418,286		418,286	183,663
	<u>22,569,047</u>	<u>(59,636)</u>	<u>22,509,411</u>	<u>427,012</u>
				<u>21,316,909</u>
Excess of revenues over (under) expenses	198,615	(198,615)		(21,478)
Change in net assets				
		258,251	258,251	74,768
Fund balance/net assets - at beginning of year	126,763		735,919	148,241
Fund balance/net assets - end of year	\$ 325,378	\$ 0	\$ 994,170	\$ 126,763
				\$ 735,919

See accompanying notes to financial statements.

AREA COMMUNITY SERVICE EMPLOYMENT AND TRAINING COUNCIL
STATEMENTS OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
June 30, 2006 and 2005

	Agency Fund	
	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and cash equivalents	\$ 378,424	\$ 339,527
Investments (Note 2)	95,000	95,000
Due from general fund	<u> </u>	<u>12,186</u>
	<u>\$ 473,424</u>	<u>\$ 446,713</u>
LIABILITIES		
Accrued compensated absences	\$ 446,639	\$ 446,713
Due to general fund	<u>26,785</u>	<u> </u>
	<u>\$ 473,424</u>	<u>\$ 446,713</u>

See accompanying notes to financial statements.

AREA COMMUNITY SERVICE EMPLOYMENT AND TRAINING COUNCIL
BUDGETARY COMPARISON STATEMENTS - GENERAL FUND
Years ended June 30, 2006 and 2005

	<u>2006</u>			<u>2005</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Original Budget</u>	<u>Final Budget</u>
Revenues						
Grants	\$ 25,945,187	\$ 27,634,708	\$ 22,767,662	\$ (4,867,046)	\$ 25,990,097	\$ 26,184,351
						\$ 21,295,431
						\$ (4,888,920)
Expenses						
Subrecipient program costs	12,280,502	13,107,961	15,889,951	(2,781,990)	18,238,190	13,311,463
Direct client services	2,456,092	2,847,896	968,236	1,879,660	2,542,749	2,745,412
Operating expenditures/expenses						
Salaries and wages	2,413,116	2,450,000	2,348,927	101,073	2,442,419	2,346,868
Fringe benefits	995,722	1,029,000	973,437	55,563	879,490	842,482
Office supplies and postage	215,488	175,000	272,480	(97,480)	161,263	213,266
Travel	212,364	195,000	210,092	(15,092)	183,200	212,440
Outside services	206,040	160,000	199,870	(39,870)	119,000	229,855
Occupancy expense	791,948	750,000	809,242	(59,242)	727,400	706,960
Equipment lease and maintenance	133,340	125,000	229,063	(104,063)	97,000	62,370
Small equipment and supplies	502,964	100,000	249,463	(149,463)	131,200	218,781
Other expenses	523,828	520,000	418,286	101,714	291,518	427,012
	<u>20,731,404</u>	<u>21,459,857</u>	<u>22,569,047</u>	<u>(1,109,190)</u>	<u>25,813,429</u>	<u>21,316,909</u>
						<u>4,780,520</u>
Revenues over (under) expenses	<u>\$ 5,213,783</u>	<u>\$ 6,174,851</u>	<u>\$ 198,615</u>	<u>\$ (5,976,236)</u>	<u>\$ 176,668</u>	<u>\$ (21,478)</u>
						<u>\$ (108,400)</u>

See accompanying notes to financial statements.

AREA COMMUNITY SERVICE EMPLOYMENT AND TRAINING COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Area Community Services Employment and Training Council (Council) was formed in October, 1985, through an Interlocal Agreement between Kent County and the City of Grand Rapids pursuant to the Michigan Urban Cooperation Act of 1967. The Interlocal Agreement was amended on July 1, 1996 to include Allegan County. The Council was established to serve as the primary advocate for the reduction of causes, conditions and effects of poverty, providing social and economic opportunities that foster self-sufficiency for low income persons, administer programs to prepare youth and unskilled adults for entry into the labor force, and to afford job training to those economically disadvantaged individuals and other persons facing serious barriers to employment who are in need of such services.

Accordingly, the Council is designated for Kent and Allegan County as the grant recipient/administrative entity, pursuant to the Workforce Investment Act, and as the community action agency for Kent County, pursuant to the Michigan Economic and Social Opportunity Act. Approximately 95% of the Council's grants receivable and 92% of its revenues for the year ended June 30, 2006 were derived from contracts with agencies of the State of Michigan. Contract terms vary on a contract-to-contract basis.

Government-Wide and Fund Financial Statements: The financial statements of the Council have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues available if they are collected within 60 days of the end of the current fiscal period. Expenditures/expenses generally are recorded when a liability is incurred, as under accrual accounting.

(Continued)

AREA COMMUNITY SERVICE EMPLOYMENT AND TRAINING COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Council uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Council only uses governmental funds. Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

Fund Accounting: The Council uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The funds used by the Council are summarized by type for financial reporting purposes as governmental and fiduciary funds as follows:

General Fund: The general fund is a governmental fund used to account for all activities of the Council financed through federal, state and local grant program sources.

Agency Fund: The agency fund is a fiduciary fund used to report assets held by the Council to satisfy its obligation for compensated absences of its employees. The assets are held in a custodial capacity only.

Budgets: The Council annually adopts a budget for its general fund by July 1. In the event the budget needs to be amended, a majority of the voting members must approve the amended budget in a regular Council meeting.

Cash and Cash Equivalents: Cash and cash equivalents include amounts on deposit with financial institutions.

Investments: Investments consist of certificates of deposit and are stated at market value.

Capital Assets: Capital assets, consisting of office furniture and equipment, computer hardware and software and vehicles, are recorded at cost for purchased assets and at estimated fair market value on the date received for donated assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

(Continued)

AREA COMMUNITY SERVICE EMPLOYMENT AND TRAINING COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation of all capital assets is charged to an expense against operations. Depreciation has been provided using the straight-line method over the average service life of the asset, from five to seven years.

Accounts Receivable: Accounts receivable include amounts billed or billable to grantors, net of an allowance for uncollectible amounts. Management establishes an allowance for losses based on specific situations and grant terms and conditions. Losses are written off to the allowance when management determines that further collection efforts will not produce additional recoveries. As of June 30, 2006 and 2005, no allowance was necessary.

Compensated Absences: Council employees earn and accumulate vacation and sick leave in varying amounts based on hours worked and length of service. At termination, employees are entitled to receive payment for unused, accumulated vacation in accordance with established policies and formulas.

Accordingly, the Council recognizes the cost of compensated absences for vacation and sick leave when earned. Assets and the related liability for compensated absences are recorded in the Agency Fund.

Fund Balance: The amount reported as unreserved fund balance in the accompanying balance sheet represents the accumulated excess of program revenues over expenditures. Such excesses were properly earned by the Council and do not represent program income for federal and state grant purposes. Accordingly, the unreserved fund balance reflects non-grant financial resources available for future appropriation.

Use of Estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(Continued)

AREA COMMUNITY SERVICE EMPLOYMENT AND TRAINING COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits: At June 30, 2006 and 2005, the carrying amount of cash was \$1,009,179 and \$381,952, respectively. Of the bank balances, \$285,026 and \$209,497, respectively, was insured by the Federal Deposit Insurance Corporation (FDIC). The remaining bank balances of \$1,329,196 and \$1,072,211 were not collateralized at June 30, 2006 and 2005, respectively.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Council will not be able to recover its deposits. The Council's investment policy does not contain requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following disclosure: Act 217, P.A. 1982, authorizes units of local government to deposit funds in accounts of federally insured banks, credit unions and savings and loan associations.

Investments: At September 30, 2006 and 2005, the Council's investments were as follows:

	<u>2006</u>	<u>2005</u>
Insured (FDIC) certificate of deposit	\$ 95,000	\$ 95,000

Credit Risk: The Council investment policy limits the investments in certificates of deposits to banks which are federally insured. It's investment listed above meets this requirement.

NOTE 3 - CAPITAL ASSETS

The following is a summary of capital assets as of June 30, 2006 and 2005:

	----- June 30, 2006 -----		
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>
Capital assets being depreciated			<u>Ending Balance</u>
Office furniture and equipment	\$ 411,112		\$ 411,112
Computers	630,651	\$ 292,387	923,038
Software	91,118		91,118
Vehicles	<u>161,358</u>		<u>161,358</u>
	1,294,239	<u>292,387</u>	1,586,626
Accumulated depreciation			
Office furniture and equipment	78,540	58,953	137,493
Computers	407,210	140,473	547,683
Software	69,472	16,541	86,013
Vehicles	<u>129,861</u>	<u>16,784</u>	<u>146,645</u>
	<u>685,083</u>	<u>232,751</u>	<u>917,834</u>
Total capital assets - net	<u>\$ 609,156</u>	<u>\$ 59,636</u>	<u>\$ 668,792</u>

(Continued)

AREA COMMUNITY SERVICE EMPLOYMENT AND TRAINING COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 3 - CAPITAL ASSETS (Continued)

	----- June 30, 2005 -----			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets being depreciated				
Office furniture and equipment	\$ 206,027	\$ 205,085		\$ 411,112
Computers	555,827	74,824		630,651
Software	91,118			91,118
Vehicles	<u>161,358</u>			<u>161,358</u>
	1,014,330	279,909		1,294,239
Accumulated depreciation				
Office furniture and equipment	34,235	44,305		78,540
Computers	317,577	89,633		407,210
Software	46,600	22,872		69,472
Vehicles	<u>103,008</u>	<u>26,853</u>		<u>129,861</u>
	<u>501,420</u>	<u>183,663</u>		<u>685,083</u>
Total capital assets – net	<u>\$ 512,910</u>	<u>\$ 96,246</u>		<u>\$ 609,156</u>

NOTE 4 - CONTINGENT LIABILITIES

Under the terms of its Federal and State grants, periodic audits are required and certain costs may be questioned as not representing appropriate expenditures under the terms of those grants. Such audits could lead to reimbursement to the grantor agencies. Council management believes any such disallowances would be minimal.

NOTE 5 - RETIREMENT PLAN

The Council provides retirement benefits to substantially all employees through a defined contribution money purchase retirement plan, which is administered by a life insurance company. Required contributions are equal to 14% of gross wages paid to participating employees (i.e. the employer contributes 7% and the employees contribute 7%) and all contributions are fully and immediately vested.

Employer contributions to the plan amounted to \$156,323 on \$2,247,894 of covered wages and \$2,340,082 of total wages for 2006 and \$155,798 on \$2,202,107 of covered wages and \$2,289,904 of total wages for 2005.

(Continued)

AREA COMMUNITY SERVICE EMPLOYMENT AND TRAINING COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 6 - LEASES

The Council leases office space and various office equipment and vehicles. Lease terms range from two to ten years with options to renew at varying terms. Rent expense for operating leases for the years ended June 30, 2006 and 2005 were \$376,546 and \$360,306, respectively.

Minimum future lease payments under noncancelable operating leases as of June 30, 2006 are as follows:

2007	\$ 197,473
2008	116,210
2009	108,212
2010	108,975
2011	82,800
Thereafter	<u>96,600</u>
	<u>\$ 710,270</u>

All leases include a provision that allows the Council to terminate the lease agreement if grant funds received from the state or federal government are terminated or reduced in a way that it is unable to maintain a comparable level of program services, or the lessor is determined by the Department of Labor to be restricted from receiving federal funds.

NOTE 7 - RISK MANAGEMENT

The Council is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees; and natural disasters. The Council has purchased commercial insurance to cover these risks. The amount of coverage has not decreased nor has the amount of settlements exceeded coverage in the past three years.

SUPPLEMENTARY INFORMATION

AREA COMMUNITY SERVICE EMPLOYMENT AND TRAINING COUNCIL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2006

<u>Federal Grantor/Program Titles</u>	<u>Grant Number</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Labor			
Passed Through Michigan Department of Career Development			
Workforce Investment Act - Admin	N/A	17.260	\$ 870,383
Workforce Investment Act - Adult	N/A	17.258	1,805,134
Workforce Investment Act - Youth	N/A	17.259	1,940,082
Workforce Investment Act - Dislocated Workers	N/A	17.260	2,988,252
National Reserve - Adult	N/A	17.260	3,578
Incumbent Worker	N/A	17.267	181,232
Incentive Grant	N/A	17.258/59/60	16,913
Service Center Operation	N/A	17.260	305,356
Re-Employment Initiative	N/A	17.207	100,463
Displaced Homemaker Program	N/A	17.260	39,141
W/P Employment Service Centers	N/A	17.207	1,205,362
Capacity Building	N/A	17.260	24,000
W/P Trade Adjustment Service	N/A	17.245	1,900,482
Ex Offender and One Stop	FB-14798-05-06	17.257	<u>191,339</u>
			11,571,717
U.S. Department of Health and Human Services			
Passed Through Michigan Department of Labor/ETA			
Work First - Reed	N/A	93.558	70,107
Work First TANF	N/A	93.558	3,276,460
TANF - Case Management	05/06-41016	93.558	62,710
Passed Through Michigan Department of Human Services			
Community Service Block Grant (CSBG)	05/06-41016	93.569	816,629
CSBG - Tax prep	06-41016	93.569	17,503
LIHEAP	05/06-41016	93.568	71,694
Low Income Home Energy Crisis Assistance	06-41016	93.568	34,747
Passed Through the Area Agency on Aging of Western Michigan			
Older Americans Act	51.10	93.044	20,735
Passed Through Senior Meals Inc.			
Latin American Services	6005.10	13.635	120,338
Westside Home Delivered Meals	6005.11	13.635	<u>45,325</u>
			4,536,248

(Continued)

AREA COMMUNITY SERVICE EMPLOYMENT AND TRAINING COUNCIL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2006

<u>Federal Grantor/Program Titles</u>	<u>Grant Number</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture			
Passed Through Michigan Department of Education			
TFAP Commodity Food Distribution	41000-10340	10.568/ .569	
Administration			\$ 69,832
Food distribution			732,182
Commodity Surplus Food Program (CSFP)	41000-10340	10.568/ .569	
Administration			92,557
Food distribution			354,770
Passed Through Michigan Department of Labor/ETA			
Food Assistance E&T - Operations	N/ A	10.561	56,340
Food Assistance E&T - Support	N/ A	10.561	<u>2,755</u>
			1,308,436
U.S. Department of Energy			
Passed Through Michigan Department of Human Services			
Weatherization	05/06-41016	81.042	141,170
U.S. Department of Housing & Urban Development			
Passed Through City of Grand Rapids			
CDBG Paint Project	18334A	14.218	47,027
Neighborhood Support	18334B	16.523	<u>22,277</u>
			69,304
Federal Emergency Management Agency - Direct			
FEMA Housing Assistance	N/ A	83.523	<u>60,932</u>
			<u>\$ 17,687,807</u>

AREA COMMUNITY SERVICE EMPLOYMENT AND TRAINING COUNCIL
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2006

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Area Community Service Employment and Training Council (Council) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations*. Therefore, some amounts in this schedule may differ from the amounts presented in the general purpose financial statements.

NOTE 2 - NONCASH ASSISTANCE

The Council receives various food commodities from the United States Department of Agriculture (USDA), passed through the Michigan Department of Education, which it distributes to needy families in the area. Food commodities are stated at fair market value as determined by the USDA.



Crowe Chizek and Company LLC
Member Horwath International

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Governing Board
Area Community Service Employment
and Training Council
Grand Rapids, Michigan

We have audited the financial statements of Area Community Service Employment and Training Council (the Council) as of and for the year ended June 30, 2006, and have issued our report thereon dated March 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Council's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as items 2006-1 through 2006-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are material weaknesses.

We also noted certain additional matters that we reported to management of the Council in a separate letter dated March 26, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Governing Board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Crowe Chizek and Company LLC

Grand Rapids, Michigan
March 26, 2007



Crowe Chizek and Company LLC
Member Horwath International

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Governing Board
Area Community Service Employment
and Training Council
Grand Rapids, Michigan

Compliance

We have audited the compliance of Area Community Service Employment and Training Council (the Council) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Council's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Council's management. Our responsibility is to express an opinion on the Council's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Council's compliance with those requirements.


In our opinion, the Council complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Council is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Council's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Governing Board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Crowe Chizek and Company LLC

Grand Rapids, Michigan
March 26, 2007

AREA COMMUNITY SERVICE EMPLOYMENT AND TRAINING COUNCIL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Years ended June 30, 2006 and 2005

1. Summary of Auditor's Results:

- a. An unqualified opinion was issued on the financial statements of Area Community Service Employment and Training Council for the year ended June 30, 2006.
- b. The audit disclosed no instances of noncompliance which are material to the financial statements.
- c. An unqualified opinion was issued to Area Community Service Employment and Training Council on their compliance for major programs.
- d. Major programs identified: Work First (CFDA #93.558)
Community Service Block Grant (CFDA #93.569)
Emergency Food Assistance Program (CFDA #10.568/.569)
- e. The threshold used to distinguish between Type A and Type B programs was \$530,634.
- f. The Area Community Service Employment and Training Council qualified as a low risk auditee.

2. Findings related to the financial statements which are required to be reported in accordance with GAGAS:

Financial Statement Findings:

2006-01 Controls Over Financial Reporting

During our audit, we proposed numerous financial statement adjustments to management which have been recorded. In addition, management has a responsibility to have internal controls in place to provide appropriate financial reports in accordance with Generally Accepted Auditing Procedures (GAAP) and Government Auditing Standards (GAS) and to select and apply appropriate accounting principles. Management is not required to prepare their financial reports, but management needs to demonstrate the level of qualifications and controls to prepare their financial reports without significant deficiencies or material weaknesses in these controls. Such controls over the preparation of financial reports should include not only management effectively reviewing their financial reports for material accuracy but, the controls should also require management to have a better knowledge of accrual basis accounting and be able to make the appropriate adjustments needed to prepare reports on a fiscal year basis as well as a program year basis.

(Continued)

AREA COMMUNITY SERVICE EMPLOYMENT AND TRAINING COUNCIL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Years ended June 30, 2006 and 2005

To improve the internal control system over the preparation of financial reports and the selection and application of accounting principles, management should enhance their knowledge of accounting standards that are released and apply to your business. This may be accomplished by attending seminars, review of professional standards or other personal reading. In addition, management could utilize a checklist of accounting and reporting requirements (GAAP/GAS Checklist) in order to identify new accounting rules that may apply as well as previously issued guidance that applies. You should also develop a process (manual) for documenting the information that is required to be included in the financial reporting process and who is responsible for various aspects of the reporting.

Management Response: Staff will undergo training specifically in accrual accounting and report preparation this fiscal year. We will develop and utilize a check list of accounting and reporting requirements.

2006-02 Audit Preparation

We again experienced significant delays in completing the audit. This is the third successive year that the audit has been completed well past what we mutually expected. Some of the delay related to the turnover in your financial accounting manager position along with the ongoing timing of the receipt of information from subrecipients and extra work by the Council staff because the majority of the grants have a reporting period other than June 30. However, we experienced multiple delays beyond the planned start date for the audit and again received several trial balances before a final was provided. In addition, the information we required your staff to prepare in advance of our fieldwork was routinely incomplete when we arrived. Supporting documentation for account balances were available, but the trial balance was not adjusted to reflect I the supporting documentation. The ultimate resolution of these open items does not seem to be a priority to complete the audit. All of these situations create significant inefficiencies and additional cost of the audit and increase the risk of a material misstatement on the financial statements.

Unless management is willing to hire an individual knowledgeable in accounting and auditing, we suggest the audit preparation be outsourced to a qualified individual or firm knowledgeable in government auditing and reporting.

Management Response: The Financial manager left on March 31, 2006 with the understanding that he would assist with the audit and that did not materialize. This year we will procure the assistance of a qualified individual or firm knowledgeable in government auditing and reporting to assist us in the preparation and performance of the audit.

(Continued)

AREA COMMUNITY SERVICE EMPLOYMENT AND TRAINING COUNCIL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Years ended June 30, 2006 and 2005

2006-03 Preparation and Approval of Journal Entries

We noted there continues to be a lack of segregation of duties in the preparation, approval and review of journal entries. In several instances, we noted the same individual performed all of these functions. In addition, we noted several instances where there was no documentation supporting the journal entries.

To provide the proper checks and balances and prevent unauthorized journal entries, we recommend that all journal entries be fully documented and initialed by the preparer. They should be reviewed by a supervisor and initialed to indicate approval. Finally, only authorized individuals should post the entries using their valid employee number as an audit trail. Management should also investigate whether there are controls in the accounting software package that could be implemented to limit the number of individuals authorized to post journal entries.

Management Response: The procedure is written and we will monitor current practice to assure that there is no repeat finding in the current year's audit.

3. Findings and questioned costs for federal awards findings defined in OMB Circular A-133 Section 510 (a):

None

4. There were no prior year findings.



Crowe Chizek and Company LLC
Member Horwath International

To the Governing Board
Area Community Service Employment
and Training Council
144 East Fulton Street
Grand Rapids, Michigan 49503

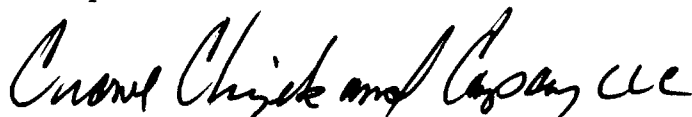
In planning and performing our audit of the financial statements of Area Community Service Employment and Training Council (the "Council") for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that might be of interest to you.

BUDGET PREPARATION AND REPORTING

Detailed budgets for general operating expenses and individual programs are utilized by management and the program directors. However, the Council does not have a summary budget report of revenue and expenditures for the overall Council operations for the fiscal year. In addition, the budget from the current year reported an unrealistic excess of revenue over expenditures of approximately 22%. An actual to budget report, similar in format to the one included in the annual financial statements, would be a valuable tool for management and the board.

The budget report management uses to oversee and manage grant revenue does not lend itself to good budget management and fiscal oversight by the Board for the Council as a whole. Management should prepare the overall Council annual fiscal year budget of revenue and expenditures before the beginning of the fiscal year. There are many examples of budget formats available in accounting literature and on websites which management may want to consider.

This report is intended solely for the information and use of the Governing Board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Crowe Chizek and Company LLC

Grand Rapids, Michigan
March 26, 2007